

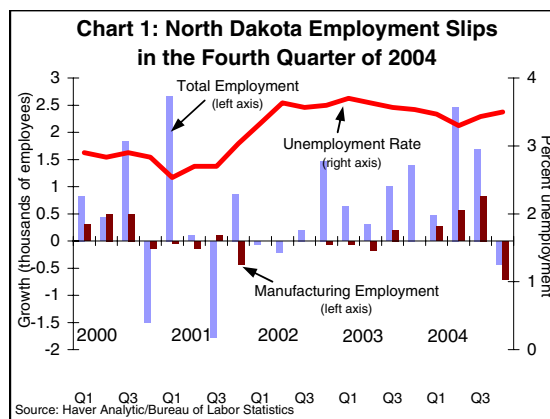
# FDIC State Profile

Spring 2005

## North Dakota

North Dakota's total employment declined in the fourth quarter of 2004.

- North Dakota's economy lost 400 jobs in the fourth quarter of 2004, the first decline since the second quarter of 2002. Despite the slight decline, employers added 4,200 jobs in 2004. North Dakota's economy has added jobs every year since 1990 (See Chart 1). The manufacturing sector declined by 700 jobs in the fourth quarter, but the sector continued to grow on a calendar year basis, as North Dakota is one of only five states where manufacturing employment in 2004 is greater than it was in 1990.
- North Dakota's unemployment rate increased slightly to 3.5 percent in the fourth quarter, and is now tied for the third best ranking in the nation.



**Banking performance remains solid.**

- Asset quality, which suffered only modestly through North Dakota's 2000-02 economic downturn, continues to improve (See Table 1). Loan activity surged in 2004 after minimal growth the previous four years. The median loan-to-asset ratio climbed 2.8 percentage points to 65.6 percent.
- Overall earnings performance remained positive; in fact, no established institution has reported an earnings loss since second quarter 2003.<sup>1</sup>
- North Dakota institutions experienced a noticeable decline in core funding in 2004. After holding steady the past two years, median core deposits as a percent of assets declined to 74.2 percent from 75.8 percent. This could indicate a reversal of the long-term deposit growth trend as investors begin returning funds into stock and bond markets.

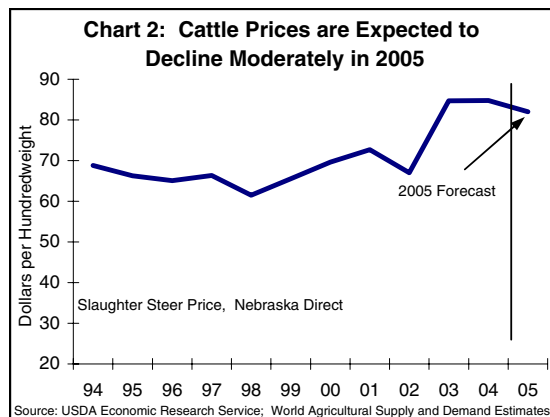
**Mad Cow Disease continues to cause uncertainty for North Dakota's cattle industry in 2005.**

- After enjoying two years of record cattle prices, North Dakota producers face heightened uncertainty in 2005

**Table 1: Asset Quality Improves and Net Income Remains Steady**

	12-04	12-03	12-02	12-01	12-00
<b>Capital</b>					
Tier 1 Leverage Capital	9.6	9.2	9.3	9.2	9.5
<b>Asset Quality</b>					
Past Due Loan Ratio	1.52	1.75	2.29	2.29	2.46
Net Charge-off Rate	0.06	0.12	0.14	0.14	0.13
<b>Earnings</b>					
Pretax Return on Assets	1.48	1.47	1.47	1.40	1.46
Net Interest Margin	4.15	4.17	4.32	4.28	4.41

Source: FDIC. North Dakota institutions. Figures are median percent values.



<sup>1</sup>Established institutions are insured institutions that have been in operation for at least three years.

because of questions about the length of the current prohibition of Canadian cattle imports (See Chart 2).

- Canadian cattle imports have been blocked since May 2003 following the discovery of BSE (mad cow disease). If resumed, the imports from Canada are likely to depress prices for U.S. producers. Industry analysts estimate prices for live animals may decline \$3 to \$5 per hundredweight.
- On March 2, a federal judge enjoined the United States Department of Agriculture (USDA) from reopening the United States border to imports of live cattle from Canada for an undetermined period of time.

### Commercial banks are likely to face pressure to raise nonmaturity deposit rates.

- In relatively stable interest-rate environments, the cost of bank nonmaturity deposits typically run at about half of the Federal funds rate. When short-term rates tumbled in 2001 and 2002, however, deposit rates failed to completely follow, indicating that nonmaturity deposit rates had reached a natural floor (See Chart 3).
- Should interest rates continue to rise, banks will likely feel increasing pressure from customers to raise deposit rates.

### North Dakota's farmland values increased significantly in 2004.

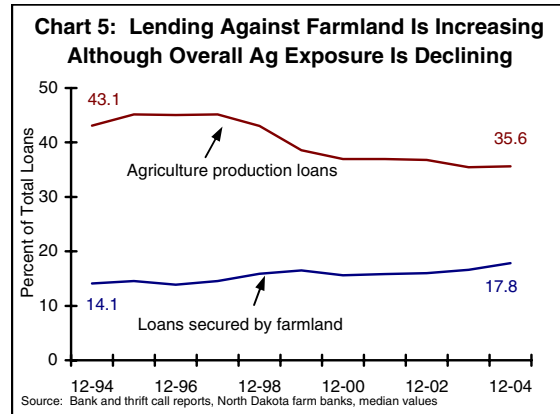
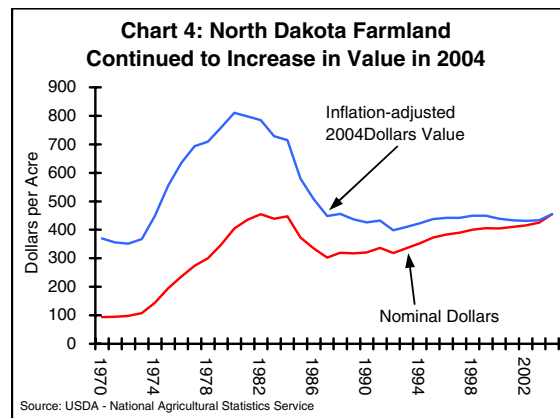
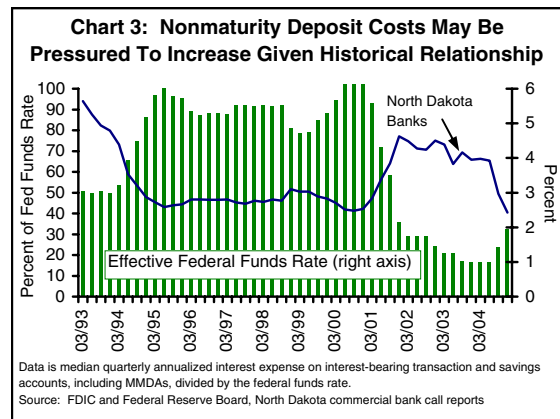
- According to USDA's annual survey of land values, the average value of North Dakota farmland increased more than 7.1 percent in 2004, compared with an annual average of 2.4 percent over the previous decade (See Chart 4).
- While the average price of \$455 per acre was the highest recorded in current dollars, farmland prices in the 1980s were considerably higher in inflation-adjusted dollars. In 1980, for example, North Dakota average land prices exceeded \$811 in 2004 dollars.
- Survey respondents listed low interest rates, favorable crop yields, and investment demand as the most important influences on increasing land prices.

### Farm banks are concentrating agricultural lending on farmland.

- Over the past decade, farm banks have taken steps to diversify their loan portfolios, which tend to be heavy with agriculture production loans. Such loans declined from 43.1 percent of total loans to 35.6 percent between year-end 1994 and 2004 (See Chart 5).
- Despite the overall decline in farm operating loans, reliance on farmland-secured loans increased 26 percent during that period, with much of the increase coming in

recent years. The increase in farmland lending is attributable to increased demand for farmland for both agricultural and nonagricultural uses, coupled with the stimulus of historically low interest rates.

- With nearly 20 percent of farm bank loan volume secured by farmland, its price stability becomes more important. Any unexpected shocks to farmland values, such as swift increases in interest rates, significant cuts in federal farm payments, or decreases in the demand for farmland used for urban expansion or recreational purposes, could have adverse effects on producers and agricultural lenders.



## North Dakota at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.0%	0.4%	0.6%	0.4%
Manufacturing (7%)	5.2%	-0.1%	-0.4%	-2.1%	4.9%
Other (non-manufacturing) Goods-Producing (6%)	4.5%	8.1%	-3.6%	4.3%	-10.6%
Private Service-Producing (64%)	1.2%	0.7%	0.4%	0.1%	1.0%
Government (22%)	-0.6%	0.7%	1.7%	1.8%	0.2%
Unemployment Rate (% of labor force)	3.5	3.5	3.6	3.0	2.8

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	9.6%	0.7%	3.4%	5.3%
Single-Family Home Permits	2.1%	31.6%	7.2%	38.3%	-27.5%
Multifamily Building Permits	-29.1%	35.8%	-30.5%	142.7%	-56.8%
Existing Home Sales	10.4%	11.7%	0.0%	20.0%	0.0%
Home Price Index	8.4%	6.4%	5.8%	5.0%	3.3%
Bankruptcy Filings per 1000 people (quarterly level)	0.85	0.86	0.83	0.76	0.76

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	103	104	107	107	113
Total Assets (in millions)	15,413	20,762	19,539	19,654	18,516
New Institutions (# < 3 years)	1	0	1	1	1
Subchapter S Institutions	53	49	47	44	39

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.52	1.75	2.29	2.29	2.46
ALLL/Total Loans (median %)	1.56	1.61	1.62	1.66	1.72
ALLL/Noncurrent Loans (median multiple)	2.69	2.17	1.69	2.05	2.08
Net Loan Losses / Total Loans (median %)	0.06	0.12	0.14	0.13	0.13

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.60	9.16	9.34	9.16	9.50
Return on Assets (median %)	1.13	1.13	1.11	1.06	1.12
Pretax Return on Assets (median %)	1.48	1.47	1.48	1.46	1.50
Net Interest Margin (median %)	4.15	4.17	4.32	4.29	4.42
Yield on Earning Assets (median %)	5.67	5.94	6.71	7.87	8.35
Cost of Funding Earning Assets (median %)	1.49	1.72	2.37	3.68	3.95
Provisions to Avg. Assets (median %)	0.08	0.13	0.16	0.14	0.14
Noninterest Income to Avg. Assets (median %)	0.50	0.53	0.50	0.52	0.46
Overhead to Avg. Assets (median %)	2.86	2.87	2.88	2.88	2.84

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	65.6	62.8	62.5	61.2	60.1
Noncore Funding to Assets (median %)	13.6	12.0	12.1	11.2	11.4
Long-term Assets to Assets (median %, call filers)	12.1	13.7	12.7	14.1	13.2
Brokered Deposits (number of institutions)	24	20	21	17	18
Brokered Deposits to Assets (median % for those above)	4.1	1.8	1.8	1.1	2.8

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	95.3	95.3	101.9	94.0	97.2
Commercial Real Estate	60.6	55.8	50.2	49.8	40.7
<i>Construction &amp; Development</i>	5.1	3.5	1.3	1.8	1.6
<i>Multifamily Residential Real Estate</i>	0.4	0.7	0.8	0.4	0.3
<i>Nonresidential Real Estate</i>	50.4	45.6	42.0	41.2	34.7
Residential Real Estate	44.6	41.8	48.0	46.0	44.5
Consumer	51.3	57.3	55.3	56.3	55.3
Agriculture	317.6	308.3	304.9	297.6	290.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Fargo, ND-MN	25	3,059	< \$250 mil.	93 (90.3%)
Bismarck, ND	14	1,546	\$250 mil. to \$1 bil.	7 (6.8%)
Grand Forks, ND-MN	18	1,289	\$1 bil. to \$10 bil.	3 (2.9%)
			> \$10 bil.	0 (0%)